MICHIGAN CHAMBER of Commerce

Testimony of the Michigan Chamber to the House Competitiveness Committee

Medicaid Expansion and Reform

May 21, 2013

Good afternoon, Chairman Shirkey and members of the House Competitiveness Committee. My name is Wendy Block and I am the Director of Health Policy and Human Resources for the Michigan Chamber of Commerce. Thank you for the opportunity to be here this afternoon to discuss Medicaid reform and expansion ("Medicaid Expansion" or "Expansion").

As I begin my testimony, I want to explain what brings us to the table on this issue. The Michigan Chamber opposed the Affordable Care Act (ACA) from the start as a seriously flawed bill that does little to address the real problem in health care: affordability. This affordability issue remains a key concern of businesses in Michigan and nationwide, with many businesses identifying it as the biggest business challenge they currently face.[1] Our members are reporting that they are holding back on plans to add employees or expand their business because of the ACA and its expected impact on the cost of providing employer-sponsored health insurance coverage.

Despite continued concerns about the ACA, the Michigan Chamber 's 83-member Board of Directors voted to support Medicaid reform and expansion. We believe Medicaid Expansion, if mixed with the right reforms, presents a real and unique opportunity to bend the overall health care cost curve and lessen negative impact the ACA will have on our state's job providers and other health insurance purchasers.

<u>After significant review of this issue, our members concluded that Expansion is in the best interest of Michigan employers because it should reduce the cost-shift to private payers.</u> Today, Michigan hospitals provide approximately $1 billion per year in uncompensated care to Michigan's uninsured citizens. These costs are borne by Michigan's hospitals but they ultimately recover these losses by obtaining higher reimbursement rates when they negotiate the contracts they have with health insurers. This causes premiums to go up, with the net effect being that those with health insurance (i.e., Michigan job providers and others) pay for the financial losses hospitals incur when they provide services to those without insurance. According to some, this cost-shifting phenomenon imposes a hidden, annual tax of about $1,000 per family through higher health insurance premiums. Last week, the Department of Community Health suggested Medicaid Expansion should produce $400 million per year in savings to premium payers because it is expected that Expansion will add 450,000 to the Medicaid rolls by 2021 and drop state's total uninsured population by 46 percent.

[1] http://www.prnewswire.com/news-releases/providing-healthcare-benefits-is-top-business-challenge-for-company-leadership-according-to-adecco-staffing-us-survey-177464941.html

Arguably, if Medicaid Expansion is done correctly, many who are currently uninsured will gain access to coverage, including access to regular care ("medical homes") that will keep them healthier and head off potential illnesses. Expansion means fewer people will present for treatment at Michigan hospital emergency rooms, the most expensive place for treatment. This is yet another reason Expansion should translate into premium relief for private health insurance purchasers.

In addition to the cost shift issue, the Michigan Chamber cares about this issue because it will protect some (key word being "some") employers from having to pay employer penalties under the ACA. This is especially true in industries that employee a large number of low-wage workers.

<u>A study by Jackson-Hewitt suggests employers will pay $54 to $81 million in "shared responsibility" taxes under the ACA if Michigan doesn't expand Medicaid.</u> This is because the ACA requires employers with more than 50 or more full-time equivalent employees to offer minimal essential health care coverage to their employees working at least 30 hours per week. If they fail to offer coverage, or the coverage they offer is unaffordable or inadequate, their employees are eligible for subsidized coverage in the Exchange and the employer must pay a shared responsibility penalty.

However, in states that accept the Medicaid Expansion, low wage workers earning less than 133 percent of the Federal Poverty Level without affordable employer-based coverage would be eligible to enroll in Medicaid and their employers would not incur the shared responsibility penalty.

In states that decide against Medicaid Expansion, that choice would not be available. Instead, employees between 100 and 133 percent of the Federal Poverty Level who are without adequate, affordable employer-offered coverage would need to go to the Exchange for coverage, where they will be eligible for premium assistance tax credits. Employers would then pay a shared responsibility payment for those employees who use premium tax credits to purchase coverage on the Exchange. The shared responsibility payment is up to $3,000 per employee that uses premium tax credits to purchase Exchange coverage -- or $2,000 for each full time employee minus 30, whichever is less.

To further detail how this works, please turn to the case studies attached to my testimony. Here, we can walk through the various scenarios and how Medicaid Expansion may impact some employers.

The ACA tries to make Expansion an "all or nothing" choice -- either expand to 133 percent of federal poverty level, or reject expansion and the federal funding entirely. We applaud your efforts to find a third way by seeking a waiver from the federal government to permit more flexibility in Michigan's Medicaid program, both for the current and expanded populations. We are hopeful the federal government will come to the table and make this decision a win-win-win: a win for taxpayers, a win for Medicaid beneficiaries and a win for purchasers of private health insurance, including employers and individuals.

As you continue in your efforts to develop an aggressive – yet workable - 1115 Waiver, we encourage you to stay focused on those areas where you can make a real difference, especially in the area of cost. To this end, **<u>we believe Expansion should be linked the following reform measures:</u>**

- <u>Reduce the cost-shift</u>
    - We believe there should be premium relief to private health insurance purchasers as uncompensated health care costs go down.

        - The state is expected to bring in $2 billion per year for Medicaid Expansion. As insurers put more people on their rolls, uncompensated care costs (estimated to be $1 billion today) will decrease. We believe you have an opportunity to ensure this happens, to require the hidden, annual tax paid today to support the uninsured population is proportionately decreased.

- <u>Limit Expansion to the availability of federal dollars</u>
    - If, at any time, the federal government fails to reimburse the state at the promised levels (100%, down to 90%), Michigan should roll-back eligibility to pre-2013 levels.

- <u>Limit Benefits, "Skin in the Game"</u>
    - Create a modified, scaled-back benefit package for the expanded Medicaid population
    - Place benefits on par with private sector coverage (e.g., small business or "bronze" level coverage)
    - Require modest premiums/cost-sharing so to create "skin in the game"

- <u>Require Proper Use of Health Care, Personal Responsibility</u>
    - Require, via incentives or otherwise:
        - Annual screenings for BMI, blood pressure, cholesterol, blood sugar and follow-up care
        - Management of chronic illnesses and medication adherence (require active case management)
        - Alcohol and tobacco screening and enrollment in cessation programs

- <u>Performance Contracts</u>
    - Require Medicaid plans to use performance contracts with providers to drive changes in health care delivery, including Emergency Room utilization, generic prescription use, and health and wellness compliance
    - Require annual review of utilization trends whereby the state could withhold a percent of premium to plans not achieving pre-determined performance metrics

You have a real and significant opportunity to change the course of this debate, to implement Expansion in a way that is fiscally responsible, gives our state's uninsured access to cost-effective health care services and provides Michigan job providers and others premium relief as the health care cost-shift reduces. To this end, we are hopeful that we have many shared goals and can work together on these items moving forward.

Thank you for your time and attention this afternoon. I'd be happy to answer any questions you may have.

Case Studies: Employer Penalties and Medicaid Expansion

Two types of penalties:

95% Rule	Unaffordable Rule
• 50+ full-time employees (FTEs) • Employer does not offer coverage to at least 95% of full-time employees • At least one employee accesses subsidies through the Exchange • Penalty: $2,000 x (FTE – 30) • <u>**Medicaid Expansion doesn't impact**</u>	• 50+ full-time employees (FTEs) • Employer maintains plan • Plan is unaffordable to some (more than 9.5% of household income) • Fee: $3,000 x each employee that accesses subsidies through the Exchange or $2,000 x (FTE – 30), whichever is less • <u>**Medicaid Expansion may impact**</u>

<u>**Employer A – Small Employer**</u>

- Small Employer: 40 full-time employees
- Employer does not offer employer-sponsored coverage

<u>Today:</u>

> ➢ TOTAL HEALTH INSURANCE COSTS: $0

<u>Under the ACA/Expansion:</u>

- Does not offer health insurance coverage but penalties do not apply because employer has less than 50 employees

> ➢ TOTAL HEALTH INSURANCE/ACA COSTS: $0
> ❖ *Medicaid Expansion does not impact the employer in any way*

<u>**Employer B – Large Employer Not Offering Coverage (95% Rule)**</u>

- Large Employer: 90 full-time employees
  80 employees work 30 hours/week and earn $7.40/hour, or $11,544/year
  10 employees are salaried, earning $50,000/year or more
- Employer does not offer employer-sponsored coverage

<u>Today:</u>

> ➢ TOTAL HEALTH INSURANCE COSTS: $0

<u>Under the ACA/Expansion:</u>

- Penalties apply because 50+ employees, do not offer health insurance coverage
- Penalties apply only if one person accesses a premium assistance tax credit under the Exchange: $2,000 x (90 FTE - first 30 employees)

> ➢ TOTAL HEALTH INSURANCE/ACA COSTS: $120,000
> ❖ *Medicaid Expansion does not impact the employer in any way*

Employer C – Large Employer Offering Coverage (Unaffordable Rule)

- 100 full-time employees
  90 employees work 30 hours/week and earn $7.40/hour, or $11,544/year
  10 employees are salaried, earning $50,000/year or more
- Employer offers coverage to employees, $2500 deductible

Today:

Employee coverage ("single"): $8200 x 100 employees

➢ TOTAL HEALTH INSURANCE COSTS: $820,000

Under the ACA:

- Maintains coverage for employees with a $2500 annual premium contribution
- "Shared Responsibility" penalties[2]

➢ 80 employees elect Medicaid due to Expansion
  ❖ NO PENALTY

➢ 10 employees seek a premium subsidy tax credit under the Exchange because employer plan is "unaffordable"
  ❖ 10 x $3000 = $30,000

➢ 10 employees accept employer-sponsored coverage
  ❖ NO PENALTY (cost of coverage: $8200 x 10 = $82,000)

➢ TOTAL HEALTH INSURANCE/ACA COSTS *IF EXPAND MEDICAID*: $112,000
  ❖ *Enrollment in Medicaid impacts the employer*
  ❖ *If ALL elect Medicaid, no penalties and just the cost of employer-sponsored coverage ($82,000)*

- Without Expansion, employer costs would significantly increase:
  "Shared Responsibility" penalties[3]
  $2000 x (100 FTE – 30) = $140,000

  Cost of employer-sponsored coverage
  $8,200 x 10 = $82,000

  ➢ TOTAL HEALTH INSURANCE/ACA COSTS *IF DON'T EXPAND MEDICAID*: $222,000

❖ NOTE: If the employer dropped employer-sponsored health insurance, costs would drop significantly (penalty: $2,000 x (100 FTE – 30) = $140,000)

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[2] Penalties apply because employee cost-sharing is more than 9.5% of the employee's household income; penalty of $2,000 x (FTE-30) is less so it is used in this example

[3] Added 40 employees who would otherwise select Medicaid due to Expansion now enroll in a premium subsidy tax credit under the Exchange

Employer D – Large Employer Offering Coverage (Unaffordable Rule)

- 90 full-time employees
  80 employees work 30 hours/week and earn $15/hour, or $23,400/year
  10 employees are salaried, earning $50,000/year or more
- Employer offers coverage to employees, $1000 deductible

Today:

Employee coverage ("single"): $8200 x 90 employees

➢ TOTAL HEALTH INSURANCE COSTS: $738,000

Under the ACA:

- Maintains coverage for employees with a $1000 annual premium contribution
  - No employees are eligible to elect Medicaid due to income (NO PENALTY)
  - Employer plan is "affordable"[4] so no employees are eligible to seek a premium subsidy tax credit under the Exchange (NO PENALTY)
  - 90 employees elect employer-sponsored coverage (cost: $8200 x 90 = $738,000)

➢ TOTAL HEALTH INSURANCE/ACA COSTS: $120,000

❖ *Medicaid Expansion does not impact this employer in any way*

❖ NOTE: If the employer dropped employer-sponsored health insurance, costs would drop significantly (90 employees x $2,000 penalty = $180,000)

[4] Because employee contribution is less than 9.5% of household income